

**CITY OF DAKOTA CITY, IOWA**

**INDEPENDENT AUDITOR'S REPORTS**  
**BASIC FINANCIAL STATEMENTS**  
**SUPPLEMENTARY AND OTHER INFORMATION**  
**SCHEDULE OF FINDINGS**

**JUNE 30, 2014**

**T. P. ANDERSON & COMPANY, P.C.**  
**Certified Public Accountants**

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## **CITY OF DAKOTA CITY, IOWA**

### **OFFICIALS**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Don Faltinson	Mayor	Dec 2015
Barb Nelson	Council Member	Dec 2015
Justin Kirchhoff	Council Member	Dec 2015
Billy Fort	Council Member	Dec 2015
Jim Van Horn	Council Member	Dec 2017
Tim Myers	Council Member	Dec 2017



T.P. ANDERSON & COMPANY, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Dakota City, Iowa, as of and for the year ended June 30, 2014, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that



are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our modified audit opinions.

#### Basis of Qualified Opinions

As permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance as of July 1, 2013.

#### Qualified Opinions

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2013, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Dakota City, Iowa as of June 30, 2014, and the respective changes in its cash basis financial position for the year ended in accordance with the basis of accounting described in Note 1.

#### Other Matters

##### *Supplementary and Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Dakota City's basic financial statements. The supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with the U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, Management's Discussion and Analysis and the budgetary comparison information

on pages 5 through 11 and 22 through 23, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Governmental Auditing Standards*, we have also issued our report dated January 22, 2015 on our consideration of the City of Dakota City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Dakota City's internal control over financial reporting and compliance.

*T.P. Anderson & Company, P.C.*

January 22, 2015

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The City of Dakota City, Iowa provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2014. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City does not have, and is not required to have, an audit on an annual basis, much of the information included in this analysis is not easily comparable to prior years. Should the city choose to have audits in consecutive years, comparisons would be more meaningful and would go farther to explain the City's financial position and results of operations.

### **2014 FINANCIAL HIGHLIGHTS**

- Revenues of the City's governmental activities were approximately \$1,151,000 including bond proceeds of \$556,000. Property tax receipts were approximately \$187,000 and intergovernmental receipts were approximately \$277,000.
- Governmental activity disbursements were approximately \$1,230,000 in fiscal 2014. 71% of total disbursements were incurred for capital projects.
- The City's total cash basis net position decreased 7%, or approximately \$75,000 from June 30, 2013 to June 30, 2014. Of this amount, the assets of the governmental activities decreased approximately \$200,000 and the assets of the business type activities increased by approximately \$125,000.

### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Cash Basis Statement of Activities and Net Position. This statement provides information about the cash basis activities of the City as a whole and presents an overview of the City's cash basis finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness.

## **Basis of Accounting**

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statement*

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Cash Basis Statement of Activities and Net Position reports information which helps answer this question.

The Cash Basis Statement of Activities and Net Position presents the City's net position. Over time, increases or decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Cash Basis Statement of Activities and Net Position is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects services. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks the sanitary sewer system, and the recycling system. These activities are financed primarily by user charges.

## *Fund Financial Statements*

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic service. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) and the Special Revenue Funds, such as Road Use Tax and Local Option Sales Tax, 3) and the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required cash basis financial statement for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the water, sewer, and recycling funds.

The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

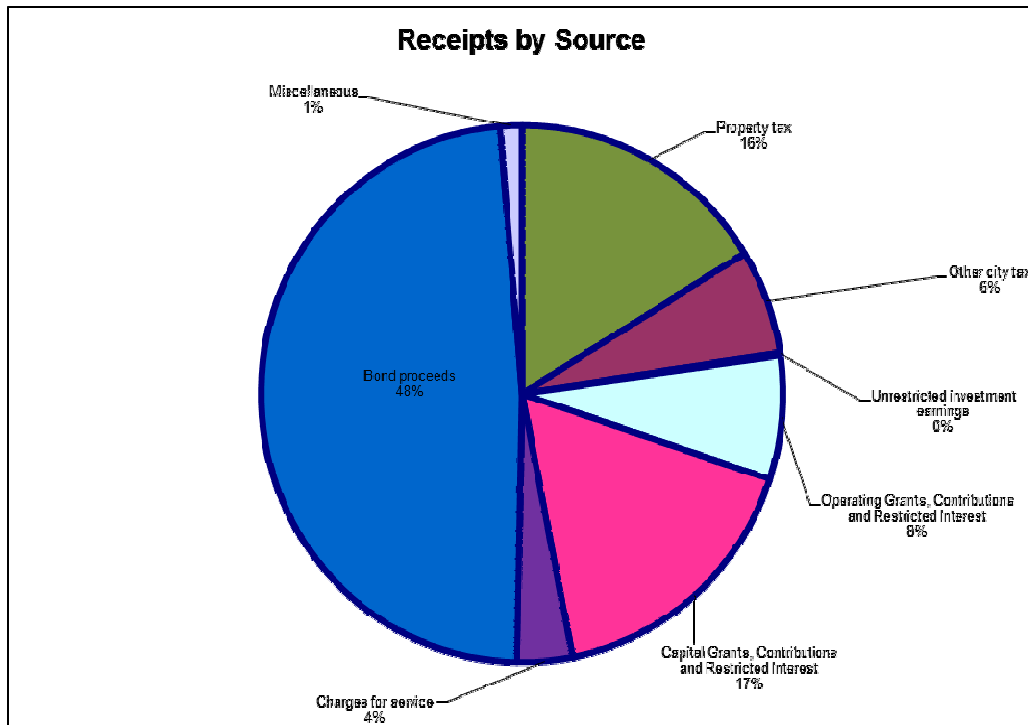
## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, from \$814,000 to \$614,000. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

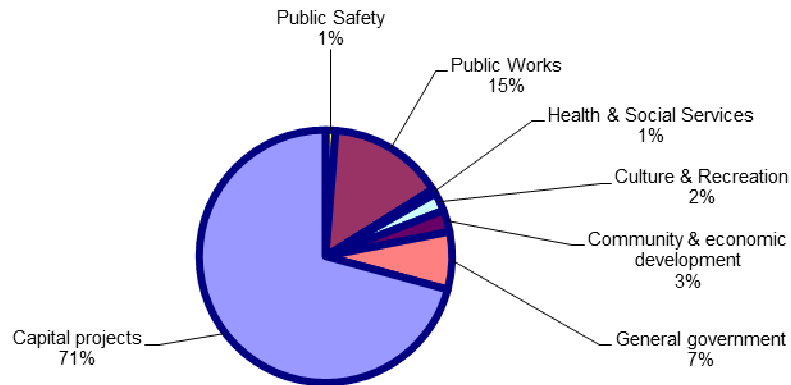
### Changes in Cash Basis Net Position of Governmental Activities (Expressed in Thousands)

	Year Ended <u>June 30, 2014</u>
Receipts and transfers:	
Program receipts:	
Charges for service	\$ 39
Operating grants, contributions and restricted interest	84
Capital grants, contributions and restricted interest	193
General receipts:	
Property tax	187
Local option sales tax	73
Unrestricted investment earnings	2
Bond proceeds	556

Other general receipts	17
Total receipts	<u>1,151</u>
Disbursements:	
Public safety	16
Public works	182
Health & social services	8
Culture and recreation	29
Community and economic development	34
General government	90
Capital projects	871
Total disbursements	<u>1,230</u>
Change in cash basis net position before transfers	(79)
Transfers, net	<u>(121)</u>
Decrease in cash basis net position	(200)
Cash basis net position beginning of year	<u>814</u>
Cash basis net position end of year	<u>\$ 614</u>



### Disbursements by Function



The cost of all governmental activities this year was \$1,230,000. However, as shown in the Cash Basis Statement of Activities and Net Position on pages 12, the amount taxpayers ultimately financed for these activities was only \$915,000 because some of the cost was paid by those directly benefited from the programs or by other governments and organizations that subsidized certain programs with grants, contributions, and restricted interest (\$316,000). The City paid for the remaining “public benefit” portion of governmental activities with approximately \$187,000 in tax (some of which could only be used for certain programs), and with other receipts, such as interest and general entitlements.

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#### Changes in Cash Basis Net Position of Business Type Activities (Expressed in Thousands)

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	Year Ended June 30, 2014
Receipts:	
Program receipts:	
Charges for service:	
Waterworks	\$ 151
Sewer	238
Other	19
General receipts:	

Unrestricted investment earnings	1
Total receipts	409
Disbursements and transfers:	
Waterworks	121
Sewer	271
Other	13
Total disbursements and transfers	405
Change in cash basis net position before transfers	4
Transfers, net	121
Increase in cash balance	125
Cash basis net position beginning of year	208
Cash basis net position end of year	\$ 333

Total business type activities receipts for the fiscal year were \$409,000. The cash balance increased by approximately \$125,000 from the prior year.

#### **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As The City of Dakota City completed the year, its governmental funds reported a combined fund balance of \$614,000, a decrease of \$200,000 below last year's total of \$814,000. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$73,000 from the prior year to \$401,000. The increase was due in large part to a transfer of \$100,000 from the LOST fund during the year.
- The Road Use Tax Fund balance decreased by \$8,252 due to the regular operation of the fund.
- As a result of completing work on wastewater system improvements during the year ended June 30, 2014, the Capital Project Fund balance decreased by approximately \$1,000.

#### **INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Waterworks Fund cash balance increased by \$141,000 to \$138,000 at June 30, 2014 mainly due to a transfer of \$110,500 from the LOST fund during the year.
- The Sewer Fund cash balance decreased by approximately \$32,000 due primarily to planned operations of the fund.



## **BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended its budget one time. The amendment was approved on May 28, 2014 and resulted in a increase in revenues due to a loan received and increased disbursements due to an increase in capital projects. The City's disbursements were within the budgeted limits.

## **DEBT ADMINISTRATION**

At June 30, 2014, the City has approximately \$1.8 million of revenue notes outstanding. The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City has no outstanding general obligation debt at June 30, 2014.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The City's elected and appointed officials and citizens considered many factors when establishing the fiscal year 2015 budget, tax rates and fees charged for various City activities. A conservative approach was used and a balanced budget is anticipated. The City also adopted an Urban Renewal Plan in order to assist in establishing a new residential housing division. In connection with this development, the City borrowed \$250,000 to finance a portion of the infrastructure cost. These loans will be paid using TIF over the next 10 years.

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Dakota City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information contact Angelique Berry, City Clerk, 26 5<sup>th</sup> Street S, Dakota City, Iowa 50529.

## **Basic Financial Statements**

## CITY OF DAKOTA CITY, IOWA

Exhibit A

## CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION

AS OF AND FOR THE YEAR ENDED JUNE 30, 2014

Functions/Programs	Program Receipts				Net(Disbursements)Receipts and Changes in Cash Basis Net Assets		
	Disbursements	Charges for Service	Operating Grants Contributions and Restricted Interest	Capital Grants Contributions and Restricted Interest	Governmental Activities	Business type Activities	Total
<b>Governmental activities:</b>							
Public safety	\$ 15,710	-	-	-	(15,710)	-	\$ (15,710)
Public works	182,314	22,619	84,177	-	(75,518)	-	(75,518)
Health & Social Services	7,968	-	-	-	(7,968)	-	(7,968)
Culture and recreation	28,709	16,153	-	-	(12,556)	-	(12,556)
Community and economic development	34,450	-	-	8,917	(25,533)	-	(25,533)
General government	90,452	-	-	-	(90,452)	-	(90,452)
Capital projects	870,948	-	-	183,670	(687,278)	-	(687,278)
<b>Total governmental activities</b>	<b>1,230,551</b>	<b>38,772</b>	<b>84,177</b>	<b>192,587</b>	<b>(915,015)</b>	<b>-</b>	<b>(915,015)</b>
<b>Business type activities</b>							
Waterworks	120,739	151,083	-	-	-	30,344	30,344
Sewer	270,419	238,120	-	-	-	(32,299)	(32,299)
Other	12,685	18,896	-	-	-	6,212	6,212
<b>Total business type activities</b>	<b>403,843</b>	<b>408,099</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,256</b>	<b>4,256</b>
<b>Total</b>	<b>\$ 1,634,393</b>	<b>446,871</b>	<b>84,177</b>	<b>192,587</b>	<b>(915,015)</b>	<b>4,256</b>	<b>(910,758)</b>
<b>General Receipts and Transfers:</b>							
Property tax levied for:							
General purposes					\$ 186,781	-	186,781
Local option sales tax					72,655	-	72,655
Unrestricted interest on investments					1,895	594	2,489
Loan proceeds					556,268	-	556,268
Miscellaneous					17,599		17,599
Transfers in (out)					(120,500)	120,500	-
<b>Total general receipts and transfers</b>					<b>714,698</b>	<b>121,094</b>	<b>835,792</b>
<b>Change in cash basis net assets</b>					<b>(200,316)</b>	<b>125,350</b>	<b>(74,966)</b>
<b>Cash beginning of year</b>					<b>814,107</b>	<b>208,022</b>	<b>1,022,129</b>
<b>Cash end of year</b>					<b>613,791</b>	<b>333,372</b>	<b>947,163</b>
<b>Cash Basis Net Position:</b>							
Restricted							
Expendable							
Road use tax					165,824	-	165,824
Local option sales tax					68	-	68
Emergency					25,006	-	25,006
Employee benefits					37,509	-	37,509
Unrestricted					385,384	333,372	718,756
<b>Total cash basis net position</b>					<b>\$ 613,791</b>	<b>333,372</b>	<b>947,163</b>

See Notes to Financial Statements

# CITY OF DAKOTA CITY, IOWA

## STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES GOVERNMENTAL FUNDS AS OF AND FOR THE YEAR ENDED JUNE 30, 2014

	General	Special Revenue Road Use Tax
Receipts:		
Property tax	\$ 159,843	-
Other city tax	-	-
Licenses and permits	1,975	-
Use of money and property	2,297	223
Intergovernmental	8,917	84,177
Charges for service	38,772	-
Special assessments	132	-
Miscellaneous	13,368	1,500
Total receipts	225,304	85,900
Disbursements:		
Operating:		
Public Safety	15,710	-
Public Works	82,662	94,152
Health & Social Services	7,968	-
Culture & Recreation	27,577	-
Community & economic development	34,450	-
General government	84,285	-
Capital Projects	-	-
Total Disbursements	252,652	94,152
Excess of receipts over disbursements	(27,348)	(8,252)
Other financing sources (uses):		
Transfers In	100,000	-
Transfers Out	-	-
Loan proceeds	-	-
Total other financing sources (uses)	100,000	-
Net change in cash balances	72,652	(8,252)
Cash balances beginning of year	328,433	174,076
Cash balances end of year	\$ 401,085	165,824
<b>Cash Basis Fund Balances</b>		
Restricted for:		
Streets	-	165,824
Other purposes	-	-
Unassigned	401,085	-
Total cash basis fund balances	\$ 401,085	165,824

See Notes of Financial Statements

## Exhibit B

Capital Projects	Nonmajor	Total
-	26,938	186,781
-	72,655	72,655
-	-	1,975
-	-	2,520
183,670	-	276,764
-	-	38,772
-	-	132
-	-	14,868
183,670	99,593	594,467
-	-	15,710
-	5,500	182,314
-	-	7,968
-	1,132	28,709
-	-	34,450
-	6,167	90,452
870,948	-	870,948
870,948	12,799	1,230,551
(687,278)	86,794	(636,084)
130,000	-	230,000
-	(350,500)	(350,500)
556,268	-	556,268
686,268	(350,500)	435,768
(1,010)	(263,706)	(200,316)
(14,691)	326,289	814,107
(15,701)	62,583	613,791
-	-	165,824
-	62,583	62,583
(15,701)	-	385,384
(15,701)	62,583	613,791

**CITY OF DAKOTA CITY, IOWA**

**Exhibit C**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES**

**PROPRIETARY FUNDS**

**AS OF AND FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Waterworks</u>	<u>Sewer</u>	<u>Nonmajor Recycling</u>	<u>Total</u>
Operating receipts:				
Charges for service	\$ 151,083	\$ 238,120	\$ 18,896	\$ 408,099
Total operating receipts	<u>151,083</u>	<u>238,120</u>	<u>18,896</u>	<u>408,099</u>
Operating disbursements:				
Business type activities	<u>120,739</u>	<u>102,511</u>	<u>12,685</u>	<u>235,935</u>
Total operating disbursements	<u>120,739</u>	<u>102,511</u>	<u>12,685</u>	<u>235,935</u>
Excess of operating receipts over operating disbursements	30,344	135,609	6,211	172,164
Non-operating receipts (disbursements)				
Interest on investments	186	408	-	594
Capital Projects	-	(36,771)	-	(36,771)
Debt service	-	(131,137)	-	(131,137)
Net non-operating receipts (disbursements)	<u>186</u>	<u>(167,500)</u>	<u>-</u>	<u>(167,314)</u>
Excess (deficiency) of receipts over (under) disbursements	30,530	(31,891)	6,211	4,850
Other financing sources (uses):				
Operating transfers in (out)	<u>110,500</u>	<u>-</u>	<u>10,000</u>	<u>120,500</u>
Total other financing sources (uses)	<u>110,500</u>	<u>-</u>	<u>10,000</u>	<u>120,500</u>
Change in cash balances	141,030	(31,891)	16,211	125,350
Cash balances beginning of year	<u>(3,481)</u>	<u>222,830</u>	<u>(11,327)</u>	<u>208,022</u>
Cash balances end of year	<u>\$ 137,549</u>	<u>\$ 190,939</u>	<u>\$ 4,884</u>	<u>\$ 333,372</u>
<b>Cash Basis Fund Balances</b>				
Unrestricted	<u>137,549</u>	<u>190,939</u>	<u>4,884</u>	<u>333,372</u>
Total cash basis fund balances	<u>\$ 137,549</u>	<u>\$ 190,939</u>	<u>\$ 4,884</u>	<u>\$ 333,372</u>

See Notes of Financial Statements

## **CITY OF DAKOTA CITY, IOWA**

### **NOTES TO FINANCIAL STATEMENTS**

#### **(1) Summary of Significant Accounting Policies**

The City of Dakota City is a political subdivision of the State of Iowa located in Humboldt County. It was first incorporated in 1858 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture, recreation, community and economic development and general government services. The City also provides water and sewer utilities and recycling services for its citizens.

##### **A. Reporting Entity**

For financial reporting purposes, City of Dakota City has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The City has also considered all other potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City. The City of has no component units which meet the Government Accounting Standards Board criteria.

##### **Jointly Governed Organizations**

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: North Central IA Regional Solid Waste Agency and the Humboldt County Joint E911 Service Board.

##### **B. Basis of Presentation**

Government-wide Financial Statements – The Cash Basis Statement of Activities and Net Position reports information on all the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

## CITY OF DAKOTA CITY, IOWA

### NOTES TO FINANCIAL STATEMENTS

The Cash Basis Statement of Activities and Net Position present the City's nonfiduciary net position. Net position is reported in the following categories/components:

*Nonexpendable restricted net position* are subject to externally imposed stipulations which require them to be maintained permanently by the City.

*Expendable restricted net position* results when constraints placed on the use of cash are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

*Unrestricted net position* consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.



## **CITY OF DAKOTA CITY, IOWA**

### **NOTES TO FINANCIAL STATEMENTS**

#### **Capital Projects:**

The Capital Projects Fund is used to account for receipts and disbursements on the slip lining project.

#### **The City reports the following major proprietary funds:**

The Enterprise, Water Fund accounts for the operation and maintenance of the City's water distribution system.

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

#### **C. Measurement Focus and Basis of Accounting**

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with the U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications-committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

#### **D. Governmental Cash Basis Fund Balances**

## CITY OF DAKOTA CITY, IOWA

### NOTES TO FINANCIAL STATEMENTS

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state and federal laws or are imposed by law through constitutional provisions or enabling legislation.

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2014, disbursements did not exceed the budgeted amounts.

(2) **Cash and Pooled Investments**

The City's deposits at June 30, 2014 (which include certificates of deposit totaling \$518,358) were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; and certain joint investment trusts and warrants or improvement certificates of a drainage district.

The City had no investments other than certificates of deposit as of June 30, 2014.

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

(3) **Bonds and Notes Payable**

Annual debt service requirements to maturity for the City's revenue notes are as follows:

## CITY OF DAKOTA CITY, IOWA

### NOTES TO FINANCIAL STATEMENTS

Years ended June 30:	Principal	Interest	Total
2015	81,267	52,238	133,505
2016	84,000	49,940	133,940
2017	85,000	47,510	132,510
2018	88,000	45,048	133,048
2019	91,000	42,500	133,500
2020-2024	496,000	171,233	667,233
2025-2029	570,000	94,695	664,695
2030-2033	318,000	15,783	333,783
	<u>1,813,267</u>	<u>518,947</u>	<u>2,332,214</u>

The City has pledged future sewer customer receipts, net of special operating disbursements, to repay \$1,600,000 of sewer revenue notes issued in June 2011. Proceeds from the notes provided financing for the remodel of the sewer treatment plant. The notes are payable solely from sewer customer net receipts and are payable through 2031. The total principal and interest remaining to be paid on the notes is \$1,688,514. For the current year, principal and interest paid and total customer net receipts were \$99,485 and \$135,609, respectively.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$556,267 of sewer revenue notes issued in September 2013. These notes have a face value of \$600,000 but the City only drew down \$556,267 of the total during the year ended June 30, 2014. Proceeds from the notes provided financing for the construction of the sewer slip lining project. The notes are payable solely from sewer customer net receipts and are payable through 2033. The total principal and interest remaining to be paid on the notes is \$643,700. For the current year, principal and interest paid and total customer net receipts were \$31,652 and \$135,609, respectively.

The resolutions providing for the issuance of the revenue notes include the following provisions:

- a) The notes will only be redeemed from future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- b) Sufficient monthly transfers shall be made to separate sewer revenue note sinking accounts within the Enterprise Funds for the purpose of making the note principal and interest payments when due.
- c) All funds remaining in the sewer account after the payment of all maintenance and operating expenses and required transfers shall be placed in a water revenue surplus account within the Enterprise Funds. This account is restricted for the purpose of paying for any improvement, extension or repair to the system or for note and interest payments which the other accounts might be unable to make.
- d) Each of the revenue notes requires the City to establish rates sufficient to generate net revenues not less than 110% of the principal and interest due on the notes in a given year.

## CITY OF DAKOTA CITY, IOWA

### NOTES TO FINANCIAL STATEMENTS

#### (4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P. O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 5.95% of their annual covered salary and the City is required to contribute 8.93% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2014, 2013 and 2012 were \$16,241, \$15,014, and \$12,425 respectively, equal to the required contributions for each year.

#### (5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as expenditures by the City until they are paid. The City's approximate maximum liability for earned vacation and sick leave payable to employees at June 30, 2014, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>	
	<u>06-30-14</u>	
Sick pay and personal days	\$	9,151
Vacation pay		<u>4,254</u>
Total	\$	<u><u>13,405</u></u>

This liability has been computed based on rates of pay in effect at June 30, 2014.

#### (6) Interfund Transfers

The detail of interfund transfers, for the year ended June 30, 2014 is as follows:

<u>Transfer To</u>	<u>Transfer From</u>	<u>Amount</u>
General Fund	Special Revenue Fund:	
	Local Option Sales Tax	\$ 100,000
Capital Projects	Special Revenue Fund:	
	Local Option Sales Tax	130,000
Enterprise:	Special Revenue Fund:	
Water	Local Option Sales Tax	110,500
Enterprise:	Special Revenue Fund:	

# CITY OF DAKOTA CITY, IOWA

## NOTES TO FINANCIAL STATEMENTS

Recycling	Local Option Sales Tax	<u>10,000</u>
		<u>\$350,500</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

### (7) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

### (8) Deficit Balance

The Capital Projects Fund had a deficit balance of \$15,701 at June 30, 2014. The City received additional debt proceeds subsequent to year-end from the sewer revenue notes entered into during the year to remediate the deficit balance.

### (9) Subsequent Events

The City borrowed \$250,000 in July 2014 to assist in financing the infrasturture for the new Dakota Heights development in Dakota City. These funds were borrowed from Corn Belt Power and Midland Power and each have an effective interest rate of 2%. The required minimum payments under these notes are as follows:

Years ended June 30:	Principal	Interest	Total
2015	23,194	2,096	25,290
2016	23,232	2,376	25,608
2017	23,712	2,274	25,986
2018	24,188	2,158	26,346
2019	24,674	2,041	26,715
2020-2024	131,000	15,702	146,702
	<u>250,000</u>	<u>26,647</u>	<u>276,647</u>

In preparing the financial statements, the City has evaluated events and transactions for potential recognition or disclosure through January 22, 2015, the date the financial statements were issued.

### (10) Prospective Accounting Change

The Governmental Accounting Standards Board has issued Statement No. 68, *Accounting and*

## **CITY OF DAKOTA CITY, IOWA**

### **NOTES TO FINANCIAL STATEMENTS**

*Financial Reporting for Pensions – an amendment of GASB No. 27.* This statement will be implemented for the fiscal year ending June 30, 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information.

## **Other Information**

**CITY OF DAKOTA CITY, IOWA**

**Budgetary Comparison Schedule of Receipts, Disbursements, and Changes  
in Balances - Budget and Actual (Cash Basis)  
All Government Funds and Proprietary Funds**

**OTHER INFORMATION  
Year Ended June 30, 2014**

	Governmental Funds Activity	Proprietary Funds Activity	Total	Budgeted Amounts		Final to Total Variance
				Original	Final	
Receipts:						
Property tax	\$ 186,781	-	186,781	179,588	179,588	7,193
Other city tax	72,655	-	72,655	74,858	74,858	(2,203)
Licenses and permits	1,975	-	1,975	1,050	1,050	925
Use of money and property	2,520	594	3,114	3,000	3,000	114
Intergovernmental	276,764	-	276,764	78,821	78,821	197,943
Charges for service	38,772	408,099	446,871	400,937	400,937	45,934
Special assessments	132	-	132	125	125	7
Miscellaneous	14,868	-	14,868	1,500	1,500	13,368
Total receipts	594,467	408,693	1,003,160	739,879	739,879	263,281
Disbursements:						
Program						
Public Safety	15,710	-	15,710	17,700	17,700	(1,990)
Public Works	182,314	-	182,314	185,720	185,720	(3,406)
Health and Social Services	7,968	-	7,968	13,800	13,800	(5,832)
Culture & Recreation	28,709	-	28,709	38,313	38,313	(9,604)
Community & economic development	34,450	-	34,450	7,000	37,000	(2,550)
General government	90,452	-	90,452	94,935	94,935	(4,483)
Capital projects	870,948	-	870,948	-	1,020,000	(149,052)
Business-type activities	-	272,706	272,706	360,258	420,258	(147,552)
Total Disbursements	1,230,551	272,706	1,503,257	717,726	1,827,726	(324,469)
Excess (deficiency) of receipts over disbursements	(636,084)	135,987	(500,097)	22,153	(1,087,847)	587,750
Other financing sources, net	435,768	120,500	556,268	-	940,000	(383,732)
Excess (disbursements) of receipts and other financing sources over (under) disbursements and other financing uses	(200,316)	256,487	56,171	22,153	(147,847)	204,018
Balance - beginning of year	814,107	208,022	1,022,129	927,304	927,304	94,825
Balance - end of year	\$ 613,791	464,509	1,078,300	949,457	779,457	298,843

See Accompanying Independent Auditor's Report



## **CITY OF DAKOTA CITY, IOWA**

### **NOTES TO OTHER INFORMATION – BUDGETARY REPORTING**

**JUNE 30, 2014**

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No.41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund, each major Special Revenue Fund and each major Capital Project Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund and Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased disbursements by \$1,050,000. Budgeted funds from other financing sources were increased with the amendment by \$940,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2014, disbursements did not exceed budgeted amounts.

## **Supplementary Information**

## CITY OF DAKOTA CITY, IOWA

Schedule 1

**SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN CASH BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2014**

	SPECIAL REVENUE			Total
	Local Option Sales Tax	Emergency	Employee Benefits	
Receipts:				
Property tax	-	4,779	22,159	26,938
Other city tax	72,655	-	-	72,655
Total receipts	72,655	4,779	22,159	99,593
Disbursements:				
Operating:				
Public Works	-	-	5,500	5,500
Culture & Recreation	-	-	1,132	1,132
General government	-	-	6,167	6,167
Total Disbursements	-	-	12,799	12,799
Excess of receipts over disbursements	72,655	4,779	9,360	86,794
Other financing sources (uses):				
Transfers Out	(350,500)	-	-	(350,500)
Total other financing sources (uses)	(350,500)	-	-	(350,500)
Change in cash balances	(277,845)	4,779	9,360	(263,706)
Cash balances beginning of year	277,913	20,227	28,149	326,289
Cash balances end of year	68	25,006	37,509	62,583
<b>Cash Basis Fund Balances</b>				
Restricted for:				
General fund	-	-	-	-
Other purposes	68	25,006	37,509	62,583
Total cash basis fund balances	68	25,006	37,509	62,583

See accompanying independent auditor's report.

**CITY OF DAKOTA CITY, IOWA**

Schedule 2

**SCHEDULE OF INDEBTNESS  
Year Ended June 30, 2014**

Obligation	Date Issued	Interest Rate	Amount Original Issue	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
Revenue Bonds									
Sewer Revenue	6/10/2011	3.25%	1,600,000	\$ 1,338,000	-	56,000	1,282,000	43,485	-
Sewer Revenue	9/20/2013	2%	600,000	-	556,267	25,000	531,267	6,652	-
				<u>\$ 1,338,000</u>	<u>556,267</u>	<u>81,000</u>	<u>1,813,267</u>	<u>50,137</u>	<u>-</u>

See accompanying independent auditor's report

**CITY OF DAKOTA CITY, IOWA**

Schedule 3

**BOND & NOTE MATURITIES  
JUNE 30, 2014**

Year Ending June 30,	Revenue Notes			
	Sewer		Sewer	
	Issued June 10, 2011		Issued September 20, 2013	
	Interest Rates	Amount	Interest Rates	Amount
2015	3.25%	\$ 58,000	2%	\$ 23,267
2016	3.25%	60,000	2%	24,000
2017	3.25%	61,000	2%	24,000
2018	3.25%	63,000	2%	25,000
2019	3.25%	66,000	2%	25,000
2020	3.25%	68,000	2%	26,000
2021	3.25%	70,000	2%	26,000
2022	3.25%	72,000	2%	27,000
2023	3.25%	75,000	2%	27,000
2024	3.25%	77,000	2%	28,000
2025	3.25%	79,000	2%	28,000
2026	3.25%	82,000	2%	29,000
2027	3.25%	85,000	2%	29,000
2028	3.25%	87,000	2%	30,000
2029	3.25%	90,000	2%	31,000
2030	3.25%	93,000	2%	31,000
2031	3.25%	96,000	2%	32,000
2032		-	2%	33,000
2033		-	2%	33,000
Total		\$ 1,282,000		\$ 531,267

See accompanying independent auditor's report.

**CITY OF DAKOTA CITY, IOWA**

Schedule 4

**Schedule of Receipts By Source and Disbursements by Function-  
All Governmental Funds  
For the Last Year**

	<u>2014</u>
Receipts:	
Property Tax	\$ 186,781
Other city tax	72,655
Licenses and permits	1,975
Use of money and property	2,520
Intergovernmental	276,764
Charges for service	38,772
Special assessments	132
Miscellaneous	14,868
Total	<u>\$ 594,467</u>
Disbursements:	
Operating:	
Public safety	\$ 15,710
Public works	182,314
Health and social services	7,968
Culture and recreation	28,709
Community and economic development	34,450
General government	90,452
Capital projects	870,948
Total	<u>\$ 1,230,551</u>

See accompanying independent auditor's report.



T.P. ANDERSON & COMPANY, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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Independent Auditor's Report on Internal Control over Financial Reporting  
and on Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards*

To the Honorable Mayor and  
Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to the financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Dakota City, Iowa as of and for the year ended June 30, 2014, and the related Notes the Financial Statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated January 22, 2015. Our report expressed modified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Dakota City's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Dakota City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Dakota City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Dakota City's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies (II-A-14 and II-B-14) described in Part II of the accompanying Schedule of Findings to be material weaknesses.

A significant deficiency is a deficiency or combination of deficiencies in internal control which is less severe than a material weakness, yet important enough to merit attention by those charge with governance. We consider the deficiencies (II-C-14 and II-D-14) described in Part II of the accompanying Schedule of Findings to be significant deficiencies.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Dakota City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance that are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2014 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

#### City of Dakota City's Response to the Findings

The City of Dakota City's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses we did not audit the responses and accordingly, we express no opinion on them.

#### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Dakota City during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*T.P. Anderson & Company, P.C.*

January 22, 2015



## **CITY OF DAKOTA CITY, IOWA**

### **SCHEDULE OF FINDINGS**

#### **Part I: Summary of the Independent Auditor's Results:**

- (a) As a result of the City not being audited for all prior years, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance as of July 1, 2013. Modified opinions were issued on the financial statements. The financial statements were prepared on the basis of cash receipts and disbursements which is a basis of accounting other than U.S. general accepted accounting principles.
- (b) Material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

## CITY OF DAKOTA CITY, IOWA

### SCHEDULE OF FINDINGS

#### **Part II: Findings Related to the Financial Statements**

##### **INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

##### **INTERNAL CONTROL DEFICIENCIES:**

II-A-14      Segregation of Duties - We noted that all accounting functions may be performed by the same person at times.

Criteria - An important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible.

Cause – As a result of the office staff size and the size of the City the ability to segregate duties is difficult.

Effect – There is less control over City finances than if all duties could be adequately segregated.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials.

Response - We believe that we are close to the maximum degree of segregation of duties possible with the limited number of office employees. We will investigate additional procedures to cost effectively improve internal control.

Conclusion - The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

II-B-14      Reconciliation of utility Billings and Collections – Utility billings and collections were not reconciled monthly throughout the whole year.

Criteria – Reconciliations of all significant assets and revenue streams is a proper internal control over financial reporting.

## CITY OF DAKOTA CITY, IOWA

### SCHEDULE OF FINDINGS

Cause – The City regularly reviews accounts receivable from utility billing but had not taken the step to reconcile the collections on those accounts with the clerks report.

Effect – The controls over utility revenue is not as tight as it could be.

Recommendation – Procedures should be established to reconcile utility billings and collections for each billing period. The Council or a Council designated independent person should review the accuracy and timeliness of the reconciliation's.

Response – We will implement procedures to reconcile our utility billings and collections in a timely manner.

Conclusion – Response accepted.

II-C-14 Financial Reporting – During the audit, a material adjustment was needed to properly classify loan proceeds incorrectly recorded as grant revenue in order to present the financial statements fairly in accordance with the cash receipts and disbursements method of accounting.

Criteria – A internal control system functioning properly should prevent or detect and correct misstatements in a timely manner.

Cause – All of the funds received funded the same capital project and were recorded together.

Effect – An adjustment had to be made to properly report the revenues and loan proceeds in the financial statements.

Recommendation – The City should implement procedures to ensure loan proceeds and grant revenue are properly recorded in the City's financial statements.

Response – We will review this in the future to avoid posting errors.

Conclusion – Response accepted.

II-D-14 Compliance – The City does not have a formal process in place for determining compliance with the sewer revenue note resolution provisions.

Criteria – The revenue notes issued in 2011 require a sinking fund to be established and used to set aside funds to make payments when due.

## CITY OF DAKOTA CITY, IOWA

### SCHEDULE OF FINDINGS

Each series of sewer revenue notes requires the City to charge rates sufficient to generate net revenues not less than 110% of the principal and interest due on the notes in a given year.

Cause – The City focused on making the principle and interest payments when due and was not aware of the additional note requirements.

Effect – There was immaterial non-compliance with the note proceeds.

Recommendation – Procedures should be developed to ensure that all provisions are calculated and monitored on a monthly basis.

Response – We will consider the recommendation and take steps to address this issue.

Conclusion – Response accepted.

#### **Part III: Other Findings Related to Statutory Reporting:**

III-A-14 Certified budget – Disbursements were within budgeted limits for the year ended June 30, 2014. Expenditures for the Capital Projects function were allowed, however, to exceed the originally budgeted amount prior to the amendment approved in May.

Criteria – Chapter 384.20 of the Code of Iowa states in part that “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Cause – The City only wanted to amend the budget once to limit the administrative costs.

Effect – When disbursements were allowed to exceed the original budget prior to approving the amendment, the City was not in compliance with Chapter 384.20 of the Code of Iowa.

Recommendation – When required, the City should amend its budget in accordance with the Code of Iowa.

Conclusion – Response accepted.

III-B-14 Questionable Disbursement - We noted no questionable disbursements in regard to the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

III-C-14 Travel Expense - No disbursements of City money for travel expense of spouses of City officials or employees were noted.

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### **SCHEDULE OF FINDINGS**

- III-D-14 Business Transactions - No business transactions between the City and its officials or employees were noted.
- III-E-14 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- III-F-14 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.
- III-G-14 Deposits and Investments – The City of Dakota City had not adopted a written investment policy.

Criteria - Chapter 12B.10B of the Code of Iowa states “Political subdivisions shall approve written investment policies which incorporate the guidelines specified in section 12B.10, sections 12B.10A through 12B.10C, and any other provisions deemed necessary to adequately safeguard invested public funds.”

Cause – The City only invested funds in certificates of deposit and never had reason to question whether that would be allowed.

Effect – The City did not comply for the entire year with Chapter 12B.10B of the Code of Iowa.

Recommendation - The city should adopt a written investment policy to comply with the Code of Iowa and to implement added controls over city funds.

Response – We adopted a written investment policy in November of 2014 that complies with the Code of Iowa.

Conclusion – Response accepted.

- III-H-14 Revenue Bonds and Notes – As of June 30, 2014, the City of Dakota City did not have a Sinking Fund set up to pay the principal and interest payments from.

The Sewer Fund generated Net Revenues equal to 103% of the principle and interest due on the revenue notes during the year.

Criteria – The City’s revenue notes require funds to be set aside monthly in a sinking fund

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### **SCHEDULE OF FINDINGS**

in order that there will be sufficient funds to pay the interest on and principal of all the Bonds and any Parity Obligations as they come due.

The City's revenue notes require the Sewer Fund to generate Net Revenues not less than 110% of the principle and interest due on the revenue notes in the year.

Cause – The clerk was not aware of the sinking fund requirement and net revenue requirement.

Effect – The City was not in compliance with the note agreements.

Recommendation – The City should establish a Sewer Revenue Bond Sinking Fund sufficient to pay principal and interest payment currently due on the notes. The City should consider increasing sewer rates in order to comply with the note agreements.

Response – Subsequent to June 30, 2014 we established a sinking fund as required. We had also implemented a rate increase for the Sewer Fund that was effective January 1, 2014. We anticipate that with a full year of increased rates the Sewer Fund will achieve the net revenue requirement.

Conclusion – Response accepted.

III-I-14 Fund Balance – The Annual Financial Report required by Chapter 384.22 of the Code of Iowa was completed and filed on time by December 2, 2013, however, the report had an incorrect fund balance reported as of June 30, 2013.

Criteria – The City is required to complete and publish an Annual Financial Report that shows the City's beginning cash balance, its receipts and disbursements, and the end of year cash balance.

Cause – No one at the city reviewed the reported cash fund balance at June 30 and compared it to the City's monthly accounting reports.

Effect – The Annual Financial Report reported a cash fund balance that was significantly different than the internal accounting reports.

Recommendation – The City should review the Annual Financial Report prior to submission to ensure all amounts being reported are complete and accurate.

Response – We will comply with the recommendation.

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Conclusion – Response accepted.

III-J-14    Transfers – The City made transfers between funds during the year, however, the transfers were not formally approved by the City Council by inclusion in the minutes or budget.

Criteria – A comprehensive system of internal controls would include approving transfers between funds either in the budgeting process or in the council meeting minutes.

Cause – The approval of the fiscal year 2014 transfers was not documented properly.

Effect – The transfers were not authorized in writing.

Recommendation – The City should have all transfers approved by the City Council and documented in the budget or minutes.

Response – We will comply with the recommendation.

Conclusion – Response accepted.